**Testimony**
**of**
**UIL Holdings Corporation**
**Re:**
**Senate Committee Bill 1**
**AN ACT CONCERNING CONNECTICUT'S ENERGY FUTURE**

**Legislative Office Building**
**March 15, 2011**

Good afternoon, Senator Fonfara, Representative Nardello and members of the Energy & Technology Committee. My name is Anthony Marone and I am Vice President of Business Services for UIL Holdings Corporation (UIL). I'm here today to provide testimony on **Senate Committee Bill 1, AN ACT CONCERNING CONNECTICUT'S ENERGY FUTURE (SB1).**

UIL supports innovation in energy supply, economic development in the state and the communities we serve, and bringing down the cost of energy to the state's residents and businesses. As you know, UIL has recently invested more than a billion dollars to acquire Connecticut businesses. Our utility operating companies, The United Illuminating Company (UI), The Southern Connecticut Gas Company (SCG) and Connecticut Natural Gas Corporation (CNG) stand ready, willing and able to be part of developing the solution for Connecticut's energy future.

UIL is concerned that SB1 does not allow us to do so, by severely limiting the potential role of the state's electric and gas public service companies to work with the Commissioner of the Department of Energy and Environmental Protection (DEEP) and his staff – and with our communities and customers – to achieve the noteworthy goals of this Bill. On a task this important, we should be inclusive and collaborative, and also analytical to be sure that our programs are well designed and executed.

Our people at UI, SCG and CNG are energy industry experts. UI is nationally known for its leadership, innovation and success in achieving energy efficiency and conservation. UI has worked with Beardsley Zoo to install and monitor a demonstration solar generation system project. We also have several other solar installations including the Discovery Museum in Bridgeport, Trumbull Public Library and Columbus House in New Haven to name a few.

Yet SB1 in many respects (for example, integrated resource plan, generation procurement, standard service procurement and renewable resource projects) prohibits or greatly curtails the ability of public service companies to work on the programs intended to advance Connecticut's energy future. We suggest that the Committee amend SB1 to allow utility participation on an even basis with non-utilities, and to provide for DEEP and its bureaus to have the ability to work with us on that basis. The vast majority of our 1,700 employees live and work in Connecticut. We are firmly anchored in Connecticut,

and have a stake in the vitality of the state's economic development. We have the interest and the expertise to move forward with you on the state's energy goals.

**Renewable Energy**

Renewable energy will be an increasingly important part of Connecticut's energy mix in the future, and UIL supports the advancement of renewable energy at the lowest possible cost for consumers. While UIL is concerned about the potential cost impact of Sections 56 – 63 of SB1 (solar energy), there are ways to ensure that any funds dedicated to solar energy achieve the best possible benefit for customers, particularly for the majority of customers who will not directly benefit from the program.

First, Sections 57 – 62 of SB1 establishes a chaotic mix of mechanisms to be used to develop solar energy: performance-based incentives (Section 57), power purchase contracts and renewable energy credits (section 58), a solar solicitation plan run by the EDCs (Section 59), a solar feasibility study and DEEP issued RFP (Section 60), and a feed-in tariff (Section 61). All of these programs will vie for the limited dollars allowed by the cap set forth in Section 56, and this may result in annual boom/bust cycles when funds are allocated and depleted each year. Rather than pre-setting programs for specific situations, SB1 should set forth clear policy goals and funding limits, and designate the DEEP to conduct proceedings to determine the best market and non-market based approaches to achieving the program goals within specified funding limits.

Second, the funding cap set forth in Section 56 steps up in 2014 and 2016 regardless of the performance of the programs. UI suggests that step-ups in program funding be tied to the efficacy of the programs. One of the key messages delivered by proponents of solar energy is that the development will lead to lower costs. To effect this, the cap could increase if the DEEP holds a proceeding and is able to validate that the per kW costs of out-of-market subsidies paid under the program have decreased by "X%." This approach will incent the solar industry to continually improve its efficiency and reduce subsidies.

Third, SB1 allows the EDCs to develop and own solar facilities in very limited quantity and pursuant to restrictions applicable only to the EDCs. An open process and level playing field should be available for solar, and also for all other types of renewable generation. At present, the Bill does not allow the EDCs to develop and own other sources of renewable generation under any situations. Allowing electric distribution companies to have a role in constructing, purchasing, owning, or operating renewable generation facilities, with the appropriate regulatory oversight should ensure the lowest price to customers for this generation, and therefore should minimize the projects' effect on customer rates. For example, the EDCs should be allowed to compete to develop and own new projects under Project 150, or renewable energy projects compensated under feed in tariffs, on an equal basis with other developers. By opening the processes to greater participation, the results can only benefit.

**Procurement of Energy Resources**

Sections 52, 66, 67 and 92 of SB1 make changes to the process for procurement of energy and other products for Standard Service. Overall, UIL supports the changes to the Standard Service procurement process, and has limited comments on these sections that are designed to improve results for customers.

Section 66(a): This section requires the procurement officer of the DEEP to develop a procurement plan for each electric distribution company (EDC). Because the EDCs have the most thorough knowledge of their Standard Service requirements and customer migration patterns, it will benefit customers to have the EDCs propose plans that balance the cost and volatility mitigation objectives of Section 66 with the need to avoid being oversupplied at fixed prices as customers migrate away from Standard Service. The department would then approve, modify or reject the plans. Requiring that the department approve, modify or reject such EDC plans would provide the necessary checks and balances to assure that customers benefit.

Section 66(e): Subdivision (2) requires that transactions of 1 year or less be submitted for department pre-approval with a specified price cap. Shorter term transactions are treated as "trades" by wholesale suppliers, and as such they expect to transact quickly. UIL recommends that such purchases be submitted not to the department, but rather to the department's new procurement officer, or the procurement officer's designee, for a same day decision. This would allow the EDCs to "keep up" with the market when making short term purchases again with the objective and result of benefiting customers.

Section 67: UIL fully supports the concept of buying down Standard Service rates as soon as possible. We suggest that another approach be included in SB1, which will bring benefits to customers much sooner than attempting to negotiate contract buy downs with wholesale suppliers. This alternative buy down approach would provide for each EDC to propose a plan to defer collection from customers of a portion of the current Standard Service rate as of a certain date, and follow standard ratemaking principles to provide for the EDC to recover the deferred amounts, and the time value of the deferral, in rates over a period of 5-7 years. The potential results of this approach would then be compared with the potential benefits of the contract buydown approach. We suggest that SB1 include a period of two months after passage in which both approaches are pursued. Then the Department could evaluate and choose the result most favorable to customers. This could be implemented in time for the summer peak usage period, to maximize the immediate benefit to customers.

Sections 52 and 66 contain references to entities other than the EDCs conducting the procurement of energy and other products for Standard Service. This is unnecessary, and would likely lead to an increase in customer rates. Because virtually all of the EDCs' operations are regulated by the Department, the EDCs have every incentive to procure electricity in strict accordance with the Department's approved plan, and avoid any unnecessary risks. There is zero upside for the EDC to take risk by deviating from an approved plan, but there is downside if the EDCs' activities are found to be imprudent. If

another entity fills this role, there are a number of problems: 1) it would need to earn a profit on the service, thus adding cost (unlike the EDCs who only pass though actual costs); 2) it would not have the intimate familiarity with the EDCs' load and migration that the EDCs possess; and, 3) it would not be regulated by the department, so if the entity behaved imprudently, the only recourse that the department would have is litigation. The relationship between the EDCs as managers of Standard Service procurement and the department as regulators is optimal for customers.

Finally, Section 92 allows municipal electric providers (presumably CMEEC) to be standard service suppliers. It is not clear what the intent of this section is. If the intent is to allow CMEEC to sell energy and other products to the EDCs under bilateral contracts, then UIL is in support of the legislation. If the intent is to allow CMEEC to manage the Standard Service procurement process instead of the EDCs, then UIL believes that this could be detrimental to customers. By far the single most difficult variable to deal with when managing a portfolio of contracts is migration (both from and to Standard Service). Managing and understanding the implications of customer migration is a critical part of managing a Standard Service portfolio. Since municipal utilities in Connecticut do not allow for retail choice, CMEEC has never had to deal with this difficult variable when managing its relatively small portfolio of supply contracts. Additionally, the issues of credit, security and billing would be more complicated with another party injected into the procurement process. As such, UIL believes that leaving Standard Service procurement with the incumbent electric distribution companies is in the best interest of customers.

**Transmission**

Sections 49, 72 and 87 all deal with electricity transmission to a significant extent, but do so in a manner that appears inconsistent with the actual workings of the bulk power system, regional planning requirements, and FERC jusidiction. UIL is concerned these sections of the Bill were drafted under the misconception that transmission is interchangeable with other resources. Most transmission is built for reliability purposes to keep the lights on, and "least cost" must be considered in the context of the ability of the solution to solve the identified problem. In general, reliability problems solved by transmission are complex and multi-faceted, making simple substitution of conventional generation, renewables, or DG impractical. It should be noted that, due to the regionalization of transmission costs in New England, CT consumers only pay a modest portion (about 25%) of the cost of transmission built in the state – even if 100% of the non-reliability benefits accrue to them.

Section 49(a)(2) directs a comparison between in-state renewables and transmission lines and between in-state renewables and out-of-state renewables. As a practical matter, the comparison between in-state renewables and transmission lines is meaningless. In-state renewables are unlikely to solve the complex regional reliability issues that are the driving need behind most new transmission lines.

Section 49(a)(4) directs a comparison between transmission and various other resources and programs to "ensure the state pursues only the least-cost alternative projects." (Section 49(a)(6) requires related/similar assessments "before an electric distribution company submits a proposal for transmission line to the independent system operator or the Federal Energy Regulatory Commission." The analysis of most reliability problems is extremely complex, time-consuming, expensive, iterative, and requires interaction with ISO-NE. It appears impractical for this to be done effectively by a third party (e.g. a state agency) during a single IRP cycle. In addition, even if a state agency concludes through the IRP process that a substitute to transmission is preferred, ISO/regional concurrence will be required before development of the backstop transmission solution will be suspended. Although it appears to be an impractical proposal/process and an ineffective use of resources, if the state does pursue these analyses, it should be recognized that regional transmission owners have an obligation to proceed with back-stop reliability solutions which they can not ignore – separate from their obligations as state-regulated EDCs and independent of any analyses performed by a state agency as part of the IRP process.

Section 72 requires the Department to monitor distribution and transmission developments to "determine whether to obtain electricity from such transmission lines at a rate that will lower electricity rates for Connecticut consumers." This simply doesn't fit the reality of the wholesale market structure in New England. Transmission lines in Connecticut do not "sell" electricity, and are not "point to point" lines that move energy from "point A" to "point B." Rather, new transmission enhances the reliability of the regional electric grid by eliminating or preventing violations of North American Electric Reliability Council (NERC) reliability criteria. In satisfying these reliability needs, a robust and reliable transmission grid that is relatively free of constraints/congestion produces some beneficial economic byproducts including more efficient dispatch of generation which lowers energy clearing prices.

Section 87 requires the EDCs to notify the Department and the General Assembly ... "before such company expresses concerns to the independent system operator ... identifying any reliability issues concerning the system." This is wholly impractical and may impair the effectiveness of transmission personnel in performing their reliability-related responsibilities. The EDCs interact with ISO-NE on reliability matters via multiple points of contact (at many levels of both organizations). The interactions are more continuous (typically daily) than intermittent. The EDCs also have both notification and resolution-related obligations to the region, each other, ISO-NE, and NERC/NPCC; and these can not be put on hold pending notification of state agencies/government. If the EDCs are required to provide notification before any communication related to reliability, the notifications would quickly become voluminous, and most would be of little value. In addition, depending on the detail expected, said notifications may not be practical due to restrictions on the handling of Critical Energy Infrastructure Information (CEII). UIL would be pleased to discuss the intent of this section with the Committee, and work with drafters of the Bill to craft language that meets the intent without being impractical.

**Integrated Resource Planning**

Section 48 of SB1 replaces the EDCs as the developer of the biennial Integrated Resource Plan (IRP). The EDCs have done an exemplary job of preparing the IRP, and have met the statutory requirements governing the preparation of that document. To the extent that the statutory requirements change (such as the addition of language requiring options to lower the cost of electricity, which UIL supports), the EDCs would prepare new IRPs in accordance with such requirements. The EDCs have developed expertise in all areas covered by the IRP, which is evidenced by the improvement in quality of each new IRP relative to its predecessors. UIL is concerned that the quality of the IRP could suffer if the preparation is shifted to parties who may not have the level of Connecticut-centric expertise in every subject area covered by the IRP that the EDCs have developed through the development of the past IRPs

**Section 83 – Virtual Net Metering**

As UIL has testified before, UIL remains concerned that passage of this section of SB 1 will result in a shift of costs to support the transmission and distribution system from customers who participate in the net metering to those who do not. The result is that rates will go up for non-participating customers. The structure of the proposed pilot is not completely defined, so it is unclear whether the net metering pilot customers would receive retail credit for their transmission and distribution charges, along with all other retail rate components and not just for generation service.

Also of great concern to UIL is that the pilot is available to "ten projects to the company with a smaller service area". This structure greatly disadvantages UI's customers by, in essence, having them potentially support more than one-half of the statewide impact of these projects while they are only about 22% of the state's electrical consumption. As a point of note, a cursory review of some of UI's top customers that may be eligible for this pilot shows that as much as 5% of UI's entire system load could be involved in this pilot. This far exceeds any threshold of reasonableness for an undefined pilot project.

**Section 75 – Financing of Natural Gas Conversions**

Section 75 allows natural gas utilities to provide financing to customers who convert from electric to gas heat. This should be expanded to include conversions from any source of heating fuel.

**Section 50 – Low Income Rates**

As we have for years, UIL supports the establishment of a low income – or lifeline – rate. We believe that, properly structured, this rate can provide meaningful assistance to low income customers while minimizing – or eliminating – any further subsidization from other customers. We also suggest that the 2010 and prior proposals applied to qualifying

customers of both electric and gas distribution companies. UIL's operating gas companies support the intent of a discounted rate for lower income gas customers and urge the Committee to include such a provision. We look forward to working with the DEEP to develop such a program.

**Supplier Direct Billing**

UIL supports the process described in Sec 52(n) to determine the proper cost allocation between the electric suppliers and aggregators of costs currently incurred by the distribution companies on their behalf. To the extent the current support of these costs is found to be incorrect, the allocation should be adjusted. Currently, electric suppliers and aggregators pay no direct charges for billing services provided by UI. UI's supplier payment methodology, approved by the DPUC, deducts a small percentage of the revenue billed by UI on their behalf (approx. 1%) before payment is made to the suppliers. That 1% does not represent any support for the billing of their customers. It represents the system-wide two-year average of the uncollectible rate for UI's non-hardship customers. Said differently, the 1% is the suppliers' fair share of the uncollectible risk of UI's non-hardship customer base, which is unrelated to the costs to provide billing services.

**Energy Savings Infrastructure Pilot Program**

Section 90 would create an energy savings infrastructure pilot program. While installation of energy efficient devices is good for the consumers of Connecticut, there are some areas of this section that concern us. The first is that the language in SB1 should include a true cost effectiveness test for installation of combined heat and power systems. A comparison of the savings that a customer may see on their bill is not justification that ratepayers will benefit by paying an incentive due to costs being shifted as opposed to being reduced. The second area of concern with section 90 is that electric customers would pay for, and electric utilities would bill for loans associated with replacing gas and oil furnaces and boilers. There is no benefit to electric customers for paying for such installations.

**Cost Recovery**

Where public service companies are required by SB1 to incur costs to implement projects set forth in SB1, the language should clearly provide for the companies to recover these costs. We believe it was the intent of the drafters of the legislation that this occurs. However, SB1 does not do so in all instances. We offer to work with your staff to be sure that the language accomplishes this intent.

Thank you for the opportunity to appear before you this afternoon and I'll try to answer any questions you may have. You may also direct your questions concerning these comments to Carlos Vazquez, UIL's Senior Director of Government Relations, at (203) 499-2825 or (203)-521-2455.